

CDSSES 2020**IV International Scientific Conference "Competitiveness and the development of socio-economic systems" dedicated to the memory of Alexander Tatarkin****DIVIDEND POLICY OF THE RUSSIAN AND CHINESE OIL CORPORATIONS**

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Abstract

The dividend policy of the large corporations is a very important institution of the corporate governance. Also it plays an important role in terms of the financial efficiency and market value. Many scientists in Russia and abroad are engaged in the analysis of the dividend policy. Nowadays investor interest in emerging markets is increasing. Chinese companies are actively applying and improving dividend policy. It would be advisable to study their experience and use it in Russian corporate governance practice. The purpose of the work is to analyze the modern dividend policy as an institution of corporate governance on the example of the major corporations in Russia and China and to develop recommendations for its improvement. The object of the analysis is the dividend policy of Russian and Chinese companies in oil industry. Based on open data, samples of the largest companies in Russia and China were formed. The company's internal documents on dividend policy, annual and accounting reports for the study period (2015-2019) were used in the research. The authors considered the key dividend policy parameters to determine the type of dividend policy. The authors make a comparative analysis of the types of dividend policies and give the recommendations to improve the institution of dividend policy.

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Keywords: Corporate governance, dividend policy, institution, major corporation, oil industry

1. Introduction

The dividend policy of the large corporations is one of the most important corporate institutions, on the one hand, and on the other, it plays an important role in terms of financial efficiency and market value of the companies. Many scientists in Russia and abroad are engaged in the analysis of the dividend policy. Despite a large number of applied studies, we can state the lack of a systematic analysis of the dividend policy of Russian corporations, its features and the factors that determine it.

There are conflicting views on the role of dividend policy in economic theory. Miller and Rock (1985); Modigliani and Miller (2005) believe that the dividend policy does not determine company's market value. Alamsyah et al. (2020), using the example of Indonesian companies, also show that dividend policy does not have a significant impact on market value. But other authors defend its role and significance and investigate the factors of dividend policy. Barros et al. (2020) revealed that operating revenues, the company's size and the number of shares in free circulation are the main factors determining the dividend policy in their study of non-financial firms registered on the European Exchange (Euronext) for the period from 2000 to 2017.

Yang et al. (2020) in their study of the Chinese companies' dividend policy for the period from 2007 to 2015 consider that the share of R & D expenses significantly influence on the dividend policy. ElBannan (2020) study the impact of political factors on corporate dividend policies in the Arab East and North Africa. Yao et al. (2019) even investigated the impact of the company's location on the dividend policy - in large cities Chinese companies pay larger dividends. Fu (2019) study the dividend policy influencing factors in small and medium-sized companies. Sarwar et al. (2019) analyze the correlation between managerial abilities and dividend payouts and the authors establish that in state-owned Chinese companies this correlation is stronger than in private corporations. Jiang et al. (2018) study the impact of tax reform in China in 2012 on dividend policy. They concluded that the increase in tax payments led to an increase in dividend payments and a decrease in innovative activity. Companies need to change their dividend policies to avoid lowering their market value. Fremeth and Holburn (2020) investigate the impact of corporate procedures and the composition of directors on dividend policy. The authors conclude that independent directors are more willing to risk and invest, and representatives of the state and municipality are more focused on increasing dividends.

A study of the dividend policy of Russian oil and gas companies, conducted by Gaponenko et al. (2018), shows that the investment policy is the priority for Russian corporations. The companies apply mostly flexible dividend policies that show investors the ability to pay, but prefer the bulk of profits to spend on investment purposes. The authors emphasize that not all companies have finally formed their dividend policy, and its dividend policy is significantly influenced by the key owner's opinion (especially if it is a state).

Grevatt (2007) describes the measures that the Chinese Ministry of Finance introduced to encourage state-owned companies to pay more dividends - up to 10% of their profits, this innovation affected such sectors of the economy as oil, telecommunications, tobacco, coal, etc.

Tumunbayarova et al. (2018) study the dividend policy of Russian large corporations and compare it with the similar American companies. These authors conclude that dividend policy is influenced by the stability of the economy and industry, as well as tax policy regarding dividend payments.

Kozlova (2017) notes the uncertainty of the dividend policy regulation in Russia, in particular the absence of the term "dividend policy" in the legislation. The author identifies the most important parameters of the dividend policy: the degree of its adaptability (uniformity); the formalization level; an initiative for its formation. The most important criteria for evaluating dividend policy for investors are the shares liquidity; dividend history, average dividend yield of shares. The author also notes the low dividend yield of the Russian stock market (at the level of 3.9%), there is an industry differentiation in profitability, the chemical industry, the construction sector and telecommunications are leading. Pletnev and Nikolaeva (2013) made an analysis of institutional factors affecting the dividend policy of Russian corporations and they found that the form of ownership and industry affiliation are most seriously affected.

2. Problem Statement

The dividend policy can become a significant factor in strengthening and developing the institution of corporate governance and increasing the market capitalization and investment attractiveness of the corporation. The use of an active dividend policy by the largest corporations in Russia (namely oil and gas) can be an incentive to attract investors and develop dividend policy tools in other less significant companies. Currently, investor interest in emerging markets is increasing. Chinese companies are actively applying and improving dividend policies, the state is systematically dealing with this problem. It would be advisable to study their experience and use it in Russian corporate governance practice.

3. Research Questions

The questions the authors raise in their study are:

- identification of the most commonly used types of dividend policies of the companies in question, its purposes and methods;
- analysis of internal documents in which dividend policy is formulated and identification of compliance of formal institutions with real practice of dividend payment;
- analysis of the largest oil and gas Russian and Chinese companies' dividend policy key indicators for the period from 2015 to 2019;
- comparative analysis of instruments and parameters of dividend policy of Russian and Chinese companies;

4. Purpose of the Study

The purpose of the work is to analyze the modern dividend policy as an institution of corporate governance on the example of large oil and gas corporations in Russia and China and develop recommendations for its improvement.

5. Research Methods

The study is based on a new-institutional methodology, the corporate governance is seen as a complex institution that regulates corporate relations, and dividend policy as one of its basic elements. Statistical and financial analysis methods, comparative research method, grouping and generalization methods are used for calculations.

6. Findings

At the first stage of the study, the authors make a comparative analysis of the internal documents on dividend policy in considered companies. In the Russian companies (7 largest oil and gas companies), dividend policy's internal documents were adopted between 2015 and 2020. In general, the key parameters of the dividend policy are similar in the companies. Most oil companies state to pay for dividends the base value not less than 50% of net profit (the exception is Surgutneftegas PJSC - at least 10%). The priority dividend policy' goals are to maintain a balance of interests of the Company and shareholders. The principles and goals interpreted in these documents are based on the norms of Russian law and taking into account global corporate practices. It should be noted that such a high share of dividends in net profit makes it possible to attribute the policy of most of the companies to moderate type. It is also noteworthy that in some companies the amount of dividend paid is determined in accordance with the rules of either Russian accounting standards or International Accounting Standards (and only some use both forms in determining the dividend). Some companies also consider external and internal market factors when determining the amount of dividend payments, as well as taking into account dividend policies of competitors. As for Chinese companies, their internal documents on dividend policy were adopted in 2019-2020. Among the main goals of the dividend policy are to increase investment attractiveness, increase market capitalization, ensure financial growth opportunities, ensure shareholder rights and balance of interests. Many companies in the oil industry fix in the regulations the principle of maintaining the base value of the percentage of dividend payments in net profit at about 50% and at least 10%. The priority objectives of the dividend policy of the companies under study are mainly to maintain the balance of interests of the Company and shareholders, and the principles and goals interpreted in these documents are based on the norms of Chinese law and taking into account global corporate practices. Thus, the formally fixed dividend policy of China's largest oil and gas companies can also be attributed to a moderate type.

In the second stage of the study, the main quantitative indicators characterizing the dividend policy were calculated. The data are presented in Tables 1 and 2.

Table 1. Analysis of dividend policy in Russian oil and gas companies, 2015-2019

Gazprom					
Indicator	2015	2016	2017	2018	2019

Declared dividends, million rubles	186784,02	190327,94	190335,04	393217,05	360800
Share of dividend payments in net profit, %	46,29	46,26	189,77	42,14	30
Dividend per 1 share, rub.	7,89	8,0397	8,04	16,61	15,24
Dividend yield, %	5,8	5,2	6,2	10,8	5,9
Lukoil					
Indicator	2015	2016	2017	2018	2019
Declared dividends, million rubles	95263,08	102067,59	110573,22	116250	242503,02
Share of dividend payments in net profit, %	31,5	55,9	54,1	52,9	37,8
Dividend per 1 share, rub.	112	120	130	155	350
Dividend yield, %	4,36	3,56	3,49	2,94	6,94
Rosneft					
Indicator	2015	2016	2017	2018	2019
Declared dividends, million rubles	124528,59	63377,1	111068,9	274598,78	354085,12
Share of dividend payments in net profit, %	35	35	50	50	50
Dividend per 1 share, rub.	11,75	5,98	10,48	25,91	33,41
Dividend yield, %	4,62	1,48	3,59	6,09	7,38
Surgutneftegaz					
Indicator	2015	2016	2017	2018	2019

Declared dividends, million rubles	21435,6* /53297,8**	21435,6* /4621,2**	23221,9* /10628,76**	23221,9* /58689,23**	23221,67* /7470,94**
Share of dividend payments in net profit, %	9,94	-	22,61	9,1	29,1
Dividend per 1 share, rub.	0,6*/6,92**	0,6*/0,6**	0,65*/1,38**	0,65*/7,62**	0,65*/0,97**
Dividend yield, %	1,74*/20,14**	1,93*/1,93**	2,33*/4,99**	2,44*/28,57**	1,25*/1,87**

Tatneft

Indicator	2015	2016	2017	2018	2019
Declared dividends, million rubles	23878*/ 1617**	49696*/ 3365**	80017*/ 5892**	184992*/ 12525**	140460*/ 9510**
Share of dividend payments in net profit, %	30	50,6	75	93	89
Dividend per 1 share, rub.	10,96	22,81	39,94	84,91	64,47
Dividend yield, %	3,5*/5,5**	5,3*/9,7**	8,3*/10,9**	11,5*/16,3**	11,9*/12,4**

Russneft

Indicator	2015	2016	2017	2018	2019
Declared dividends, million rubles	-	2 381,74**	2 523,34**	2 524,65**	-
Share of dividend payments in net profit, %	-	17.2	23.35	21.5	-
Dividend per 1 share, rub.	-	24,30	25,74	25,74	-
Dividend yield, %	-	4,88	4,9	4,92	-

Novatek

Indicator	2015	2016	2017	2018	2019
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Declared dividends, million rubles	20 950,5	21254,1	24290,4	51040,3	54957
Share of dividend payments in net profit, %	24,91	14,36	20,15	32,06	23,16
Dividend per 1 share, rub.	6,9	7,0	8,0	16,81	18,1
Dividend yield, %	1,3	1,03	1,16	1,44	1,55

*- common stocks

** – preferred shares

Based on the results presented in Table 1, the following conclusions can be drawn about the dividend policy in the main oil and gas companies of Russia. In almost all periods, except for a few, companies meet their obligations to achieve the dividend share in net profit set out in the relevant dividend policy documents. The policy of five companies can be attributed to moderate (PJSC Gazprom, PJSC Lukoil, PJSC Rosneft, PJSC NK Russneft and PJSC Novatek). PJSC Surgutneftgas has a share of dividends in net profit ranging from 9 to 29%, in 2016 the dividends were not paid. PJSC TATNEFT's dividend policy can be considered as aggressive, since 2017 the share of dividends in net profit exceeds 75% and reached 93%. PJSC “NK Russnet”, due to the large share of borrowed funds and the need to implement investment projects, paid dividends only on preferred shares during the period under review, except for 2015 and 2019. Dividend yield in oil and gas industry is higher on average, than in other industries, for example, in the electric power industry, with the exception of the indicators of PJSC “Surgutneftgas” and PJSC “Novatek”, at the same time, dividend returns are not growing for all companies. The profitability of preferred shares is significantly higher than that of common stocks, which is also a general trend for other industries.

Next, we calculate similar indicators for the largest oil and gas companies in China. The data is presented in table 2.

Considering the features of the China's largest oil companies' dividend policy we can notice that CNPC adheres to the fixed dividend rate policy, and the dividend ratio is maintained at 45% of net income, SINOPEC and CNOOC have adopted a stable growth dividend policy. Compared to international oil companies, these ten major oil companies in China are at the forefront of the dividend ratio, but the dividends are mostly received by the parent company because it owns more than 60% of the shares of the listed companies.

Table 2. Dividend policy in Chinese oil and gas companies. 2015-2019

«CNOOC»					
Indicator	2015	2016	2017	2018	2019

Declared dividends, million yuan	-	637	24677	52688	61050
Share of dividend payments in net profit, %	-	10	50	80	128
Dividend per 1 share, yuan	-	0,1	0,05	0,05	0,06
Dividend yield, %	-	3,94	1,65	0,86	1,06

«ZPEC»

Indicator	2015	2016	2017	2018	2019
Declared dividends, million yuan	190	394	382	70	17,22
Share of dividend payments in net profit, %	25	42.3	35	11	5
Dividend per 1 share, yuan	0.11	0.41	0.3	0,02	-
Dividend yield, %	2.3	3.96	3.12	1.95	0.19

«SinopecShandongTaishanPetroleumCo.,Ltd»

Indicator	2015	2016	2017	2018	2019
Declared dividends, million yuan	-	4,6526	2,8467	2,0533	6,0613
Share of dividend payments in net profit, %	-	-	89	-	-
Dividend per 1 share, yuan	-	-	0.01	-	-
Dividend yield, %	-	-	-	0.14	-

«Lnyer Fuels»

Indicator	2015	2016	2017	2018	2019
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Declared dividends, million yuan	-51	-	59,03	63,5287	6,549
Share of dividend payments in net profit, %	-	-	23,28	37,02	-
Dividend per 1 share, yuan	-	0,01	0,04	0.06-	-
Дивидендная доходность, %	-	-	0,12	0,42	-

«ShenZhen Guangju Energy»

Indicator	2015	2016	2017	2018	2019
Declared dividends, million yuan	-	2413	5127	5004	3006
Share of dividend payments in net profit, %	-	55	60	65	40
Dividend per 1 share, yuan	-	0,0682	0,1449	0,1415	0,085
Dividend yield, %	-	6,89	9,92	13,87	9,24

«CNPC»

Indicator	2015	2016	2017	2018	2019
Declared dividends, million yuan	-	7900	22800	52591	45677
Share of dividend payments in net profit, %	-	31,58	45,61	62,07	56
Dividend per 1 share, yuan	-	0,06	0,13	0,18	0,14
Dividend yield, %	-	0,57	1,33	1,94	3,17

«SINOPEC»

Indicator	2015	2016	2017	2018	2019
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Declared dividends, million yuan	32400	46400	51100	62400	57591
Share of dividend payments in net profit, %	-	65,27	94,79	46,51	66,38
Dividend per 1 share, yuan	-	0,25	0,4	0,26	0,31
Dividend yield, %	-	2, 26	4,13	7,54	8,16

«SPC»

Indicator	2015	2016	2017	2018	2019
Declared dividends, million yuan	5127	5955	6140	5277	2210
Share of dividend payments in net profit, %	32,89	45,37	52,63	51,23	58,54
Dividend per 1 share, yuan	0,1	0,25	0,3	0,25	0,12
Dividend yield, %	-	1,48	4,55	5,98	6,58

«COSL»

Indicator	2015	2016	2017	2018	2019
Dividend per 1 share, yuan	-	-	33,07	70,08	2502
Share of dividend payments in net profit, %	-	-	42,86	24,14	30,77
Dividend per 1 share, yuan	-	-	0,06	0,07	0,16
Dividend yield, %	-	-	0,47	0,63	0,52

«COOEC»

Indicator	2015	2016	2017	2018	2019
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Declared dividends, million yuan	3410	1315	491	80	28
Share of dividend payments in net profit, %	-	10	5	5	6
Dividend per 1 share, yuan	-	0,1	0,05	0,05	0,06
Dividend yield, %	-	3,94	1,65	0,68	1,06

The dividend per share of China's top ten oil companies is low, on the contrary, the level of dividends of international oil companies is mostly stable and slightly increasing. The dividend yield of these ten Chinese oil companies is at a lower level than in other industries. In the current unfavorable external operating environment, China's ten largest oil companies must actively respond to the working pressures caused by low oil prices, reduce costs and increase efficiency, and increase the overall net profit available for distribution, in accordance with regulatory requirements. Based on market commitments, dividend policies are used flexibly, taking into account the multiple goals of company expansion, sustainable development and shareholder profit.

7. Conclusion

Thus, as a result of the study, the following conclusions can be drawn. Chinese companies set broader goals for dividend policy, including those aimed at improving the financial condition of the company. Chinese companies use a more balanced and flexible dividend policy and record a lower share of net profit to pay dividends. This allows them to solve investment problems, and can also be caused by crisis phenomena in the industry. Chinese companies more often use retained earnings to pay dividends. The dividend yield is much higher for Russian oil companies, but at the same time, companies in Russia and China do not monitor the growth of dividend yields. The growth of dividend yield is a significant indicator for many investors. The negative point is also the inconsistency of many companies with the actually paid dividends declared in internal documents. In our opinion, in the current conditions of a significant decrease in oil consumption due to the pandemic and a decrease in world energy prices, it is necessary to reconsider the obligations that companies have made in the field of dividend payments.

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